

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2002

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-9618

**NAVISTAR INTERNATIONAL CORPORATION**  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-3359573  
(I.R.S. Employer  
Identification No.)

4201 Winfield Road, P.O. Box 1488  
Warrenville, Illinois 60555  
\_\_\_\_\_  
(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code (630) 753-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No \_\_\_\_

**APPLICABLE ONLY TO ISSUERS INVOLVED  
IN BANKRUPTCY PROCEEDINGS DURING  
THE PRECEDING FIVE YEARS**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes \_\_\_\_ No \_\_\_\_

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

As of May 31, 2002, the number of shares outstanding of the registrant's common stock was 60,468,406.

NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES

INDEX

	<u>Page Reference</u>
Part I. Financial Information:	
Item 1. Financial Statements	
Statement of Income	
Three Months and Six Months Ended April 30, 2002 and 2001 .....	3
Statement of Financial Condition	
April 30, 2002, October 31, 2001 and April 30, 2001 .....	4
Statement of Cash Flow	
Six Months Ended April 30, 2002 and 2001 .....	5
Notes to Financial Statements.....	6
Additional Financial Information.....	19
Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition .....	21
Item 3. Quantitative and Qualitative Disclosures About Market Risk .....	28
Part II. Other Information:	
Item 1. Legal Proceedings .....	28
Item 2. Changes in Securities and Use of Proceeds.....	28
Item 4. Submission of Matters to a Vote of Security Holders .....	29
Item 5. Other Information.....	29
Item 6. Exhibits and Reports on Form 8-K.....	30
Signature.....	31

PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

**STATEMENT OF INCOME** (Unaudited)

Millions of dollars, except per share data

Navistar International Corporation and Consolidated Subsidiaries				
	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 30</b>		<b>April 30</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
<b>Sales and revenues</b>				
Sales of manufactured products.....	\$ <b>1,602</b>	\$ 1,709	\$ <b>2,991</b>	\$ 3,142
Finance and insurance revenue.....	<b>72</b>	78	<b>149</b>	154
Other income .....	<b>4</b>	17	<b>10</b>	24
Total sales and revenues.....	<b>1,678</b>	1,804	<b>3,150</b>	3,320
<b>Costs and expenses</b>				
Cost of products and services sold .....	<b>1,388</b>	1,495	<b>2,644</b>	2,780
Restructuring adjustment .....	-	-	<b>(1)</b>	-
Postretirement benefits expense .....	<b>58</b>	47	<b>116</b>	93
Engineering and research expense.....	<b>65</b>	65	<b>129</b>	130
Sales, general and administrative expense.....	<b>129</b>	137	<b>263</b>	258
Interest expense .....	<b>38</b>	42	<b>78</b>	83
Other expense .....	<b>7</b>	13	<b>18</b>	27
Total costs and expenses .....	<b>1,685</b>	1,799	<b>3,247</b>	3,371
Income (loss) before income taxes .....	<b>(7)</b>	5	<b>(97)</b>	(51)
Income tax expense (benefit) .....	<b>(3)</b>	2	<b>(37)</b>	(19)
<b>Net income (loss)</b> .....	<b>\$ (4)</b>	<b>\$ 3</b>	<b>\$ (60)</b>	<b>\$ (32)</b>
<b>Earnings (loss) per share</b>				
Basic .....	\$ <b>(0.07)</b>	\$ 0.05	\$ <b>(1.00)</b>	\$ (0.53)
Diluted.....	\$ <b>(0.07)</b>	\$ 0.05	\$ <b>(1.00)</b>	\$ (0.53)
<b>Average shares outstanding (millions)</b>				
Basic .....	<b>60.4</b>	59.5	<b>60.1</b>	59.5
Diluted.....	<b>60.4</b>	59.9	<b>60.1</b>	59.5

See Notes to Financial Statements.

**STATEMENT OF FINANCIAL CONDITION (Unaudited)**

Millions of dollars

	Navistar International Corporation and Consolidated Subsidiaries		
	April 30 2002	October 31 2001	April 30 2001
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents .....	\$ 558	\$ 822	\$ 428
Marketable securities .....	39	41	-
Receivables, net .....	748	917	747
Inventories .....	644	644	718
Deferred tax asset, net .....	153	145	199
Other assets .....	<u>133</u>	<u>167</u>	<u>183</u>
Total current assets .....	<u>2,275</u>	<u>2,736</u>	<u>2,275</u>
Marketable securities .....	526	222	519
Finance and other receivables, net .....	913	1,164	921
Property and equipment, net .....	1,676	1,669	1,843
Investments and other assets .....	201	169	159
Prepaid and intangible pension assets .....	277	272	305
Deferred tax asset, net .....	<u>867</u>	<u>835</u>	<u>693</u>
<b>Total assets</b> .....	<u><b>\$ 6,735</b></u>	<u><b>\$ 7,067</b></u>	<u><b>\$ 6,715</b></u>
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>			
<b>Liabilities</b>			
Current liabilities			
Notes payable and current maturities of long-term debt ....	\$ 493	\$ 412	\$ 391
Accounts payable, principally trade .....	946	1,103	1,064
Other liabilities .....	<u>727</u>	<u>758</u>	<u>749</u>
Total current liabilities .....	<u>2,166</u>	<u>2,273</u>	<u>2,204</u>
Debt: Manufacturing operations .....	799	908	509
Financial services operations .....	1,436	1,560	1,629
Postretirement benefits liability .....	850	824	682
Other liabilities .....	<u>392</u>	<u>375</u>	<u>412</u>
Total liabilities .....	<u>5,643</u>	<u>5,940</u>	<u>5,436</u>
Commitments and contingencies			
<b>Shareowners' equity</b>			
Series D convertible junior preference stock .....	4	4	4
Common stock (75.3 million shares issued) .....	2,139	2,139	2,139
Retained earnings (deficit) .....	(244)	(170)	(176)
Accumulated other comprehensive loss .....	(333)	(339)	(179)
Common stock held in treasury, at cost (14.9 million, 15.9 million and 15.9 million shares held)	<u>(474)</u>	<u>(507)</u>	<u>(509)</u>
Total shareowners' equity .....	<u>1,092</u>	<u>1,127</u>	<u>1,279</u>
<b>Total liabilities and shareowners' equity</b> .....	<u><b>\$ 6,735</b></u>	<u><b>\$ 7,067</b></u>	<u><b>\$ 6,715</b></u>

See Notes to Financial Statements.

**STATEMENT OF CASH FLOW** (Unaudited)

Millions of dollars

		Navistar International Corporation and Consolidated Subsidiaries	
		<b>Six Months Ended April 30</b>	
		<b>2002</b>	<b>2001</b>
<b>Cash flow from operations</b>			
Net loss .....	\$	(60)	\$ (32)
Adjustments to reconcile net loss to cash provided by (used in) operations:			
Depreciation and amortization .....		109	113
Deferred income taxes.....		(32)	(7)
Postretirement benefits funding less than expense.....		15	32
Other, net.....		(70)	(9)
Change in operating assets and liabilities, net of effects of acquisition:			
Receivables .....		95	147
Inventories .....		(9)	(60)
Prepaid and other current assets.....		(35)	16
Accounts payable .....		(168)	(55)
Other liabilities .....		29	(52)
<b>Cash provided by (used in) operations .....</b>		<b>(126)</b>	<b>93</b>
<b>Cash flow from investment programs</b>			
Purchases of retail notes and lease receivables .....		(659)	(469)
Collections/sales of retail notes and lease receivables .....		1,005	1,160
Purchases of marketable securities .....		(366)	(429)
Sales or maturities of marketable securities.....		64	90
Proceeds from sale of business.....		63	-
Capital expenditures.....		(114)	(123)
Payments for acquisition, net of cash acquired .....		-	(60)
Proceeds from sale-leasebacks .....		5	58
Property and equipment leased to others.....		(30)	(34)
Investment in affiliates .....		3	5
Capitalized interest and other.....		(7)	(26)
<b>Cash provided by (used in) investment programs .....</b>		<b>(36)</b>	<b>172</b>
<b>Cash flow from financing activities</b>			
Issuance of debt .....		257	144
Principal payments on debt .....		(94)	(104)
Net decrease in notes and debt outstanding under bank revolving credit facility and commercial paper programs .....		(291)	(174)
Debt issuance costs .....		(6)	-
Other financing activities.....		32	-
<b>Cash used in financing activities .....</b>		<b>(102)</b>	<b>(134)</b>
<b>Cash and cash equivalents</b>			
Increase (decrease) during the period.....		(264)	131
At beginning of the period .....		822	297
<b>Cash and cash equivalents at end of the period .....</b>	<b>\$</b>	<b>558</b>	<b>\$ 428</b>

See Notes to Financial Statements.

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note A. Summary of Accounting Policies**

Navistar International Corporation (NIC) is a holding company whose principal operating subsidiary is International Truck and Engine Corporation (International). As used hereafter, “company” or “Navistar” refers to Navistar International Corporation and its consolidated subsidiaries. Navistar operates in three principal industry segments: truck, engine (collectively called “manufacturing operations”), and financial services. The consolidated financial statements include the results of the company’s manufacturing operations and its wholly owned financial services subsidiaries. The effects of transactions between the manufacturing and financial services operations have been eliminated to arrive at the consolidated totals.

The accompanying unaudited financial statements have been prepared in accordance with accounting policies described in the 2001 Annual Report on Form 10-K and should be read in conjunction with the disclosures therein.

In the opinion of management, these interim financial statements reflect all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flow for the periods presented. Interim results are not necessarily indicative of results for the full year. Certain 2001 amounts have been reclassified to conform with the presentation used in the 2002 financial statements.

**Note B. Supplemental Cash Flow Information**

Consolidated interest payments during the first six months of 2002 and 2001 were \$67 million and \$99 million, respectively. Consolidated tax payments made during the first six months of 2002 were immaterial and were \$3 million for the same period in 2001.

**Note C. Income Taxes**

The benefit of Net Operating Loss (NOL) carryforwards is recognized as a deferred tax asset in the Statement of Financial Condition, while the Statement of Income includes income taxes calculated at the statutory rate. The amount reported does not represent cash payment of income taxes except for certain state income, foreign income and withholding and federal alternative minimum taxes. In the Statement of Financial Condition, the deferred tax asset is reduced by the amount of deferred tax expense or increased by a deferred tax benefit recorded during the year. Until the company has utilized its significant NOL carryforwards, the cash payment of United States (U.S.) federal income taxes will be minimal.

**Note D. Inventories**

Inventories are as follows:

Millions of dollars	April 30 2002	October 31 2001	April 30 2001
Finished products .....	\$ 403	\$ 405	\$ 489
Work in process .....	50	33	28
Raw materials and supplies .....	191	206	201
Total inventories .....	<u>\$ 644</u>	<u>\$ 644</u>	<u>\$ 718</u>

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note E. Financial Instruments**

Accounting for Derivatives and Hedging Activities

The company uses derivative financial instruments as part of its overall interest rate and foreign currency risk management strategy as further described under Item 7A of the 2001 Annual Report on Form 10-K.

The company is exposed to interest rate risk relating to changes in market interest rates. As part of its overall strategy to manage the level of exposure to the risk of interest rates adversely affecting net interest income or expense, the company uses interest rate swap agreements, interest rate caps, and forward contracts. The company is also occasionally required by third parties to use derivative instruments to make financing possible under sold note arrangements. These derivatives are used in asset-backed transactions in order to absorb some portfolio-related risks.

The company is exposed to foreign currency risk relating to changes in certain foreign currency exchange rates. As part of its overall strategy to manage the level of exposure to exchange rate risk, the company uses forward contracts. These derivatives are generally designated and qualify as cash flow hedges.

On the date Navistar enters into a derivative contract, management designates the derivative as either a hedging or non-hedging instrument. Additionally, management distinguishes between fair value hedging instruments, cash flow hedging instruments, and other derivative instruments.

The company documents and accounts for derivative and hedging activities in accordance with the provisions of SFAS 133. The company recognizes all derivatives as assets or liabilities in the Statement of Financial Condition and measures them at fair value. When certain criteria are met, it also provides for matching the timing of gain or loss recognition on the derivative hedging instrument with the recognition of (a) changes in the fair value or cash flows of the hedged asset or liability attributable to the hedged risk or (b) the earnings effect of the hedged forecasted transaction. Changes in the fair value of derivatives which are not designated as, or which do not qualify as, hedges for accounting purposes are reported in earnings in the period in which they occur.

In connection with the \$179 million floating rate portion of the \$500 million sale of retail note receivables that closed in November 2001, Navistar Financial Corporation (NFC) entered into two interest rate swap agreements. The notional amount of each swap is \$179 million. As of April 30, 2002, the fair values of the swaps are offsetting immaterial amounts. The purpose of these swaps is to convert the floating rate interest of the bonds into fixed rate interest to match the interest basis of the receivable pool sold to the owner trust, and thereby protecting NFC from interest rate volatility. The net outcome, after applying the effect of these swaps, results in NFC paying a fixed rate of interest on the projected balance of the pool. To the extent that actual pool balances differ from the projected balances, NFC has retained interest rate exposure on this difference. These two derivatives are being accounted for as non-hedging derivative instruments.

As of April 30, 2002, NFC has several outstanding derivative instruments that were entered into prior to fiscal 2002. One interest rate swap is classified as a cash flow hedge derivative instrument and has a notional amount of \$33 million. The fair value of this derivative instrument as of April 30, 2002, is (\$1) million and is recorded in other liabilities in the Statement of Financial Condition. The impact on other comprehensive income for the period then ended was not material. NFC has two interest rate swap agreements that are classified as non-hedging derivative instruments with notional amounts of \$11 million and \$32 million. The fair values of these swaps at April 30, 2002, are zero and \$1 million, respectively. NFC has three interest rate caps that are classified as non-hedging derivative instruments with notional

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note E. Financial Instruments (continued)**

amounts of \$75 million, \$500 million and \$500 million. The fair values of these caps as of April 30, 2002, are zero, \$4 million and (\$4) million, respectively. The fair values of these derivative instruments as of April 30, 2002, are recorded in other liabilities in the Statement of Financial Condition. The changes in fair value for the period are recorded in finance and insurance revenue and are not material.

The company has other derivatives classified as non-hedging, which are further described in Note 12 of the 2001 Annual Report on Form 10-K.

As of April 30, 2002, the company held other derivative contracts with notional amounts of \$26 million. The fair values of these derivative instruments at April 30, 2002, are zero, and the changes in fair values are recorded in the Statement of Income. Additionally, the company held derivative instruments with notional amounts of \$58 million. The fair values of these derivative instruments at April 30, 2002, are \$3 million, and the changes in fair values are recorded in other comprehensive income.

**Note F. Earnings Per Share**

Earnings (loss) per share was computed as follows:

Millions of dollars, except share and per share data	<b>Three Months Ended April 30</b>		<b>Six Months Ended April 30</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
Net income (loss) .....	<u>\$ (4)</u>	<u>\$ 3</u>	<u>\$ (60)</u>	<u>\$ (32)</u>
Average shares outstanding (millions)				
Basic .....	<b>60.4</b>	59.5	<b>60.1</b>	59.5
Dilutive effect of options outstanding and other dilutive securities .....	<u>-</u>	<u>0.4</u>	<u>-</u>	<u>-</u>
Diluted.....	<u><b>60.4</b></u>	<u>59.9</u>	<u><b>60.1</b></u>	<u>59.5</u>
Earnings (loss) per share				
Basic .....	<b>\$ (0.07)</b>	\$ 0.05	<b>\$ (1.00)</b>	\$ (0.53)
Diluted.....	<b>\$ (0.07)</b>	\$ 0.05	<b>\$ (1.00)</b>	\$ (0.53)

The computation of diluted shares outstanding for the six months ended April 30, 2002 and 2001, excludes incremental shares of 1.0 million and 0.5 million, respectively, related to employee stock options and other dilutive securities. These shares are excluded due to their anti-dilutive effect as a result of the company's loss for the first half of 2002 and 2001.



Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note G. Comprehensive Income**

The components of comprehensive income (loss) are as follows:

Millions of dollars	<b>Three Months Ended April 30</b>		<b>Six Months Ended April 30</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
Net income (loss) .....	\$ (4)	\$ 3	\$ (60)	\$ (32)
Other comprehensive income (loss) .....	<u>6</u>	<u>1</u>	<u>6</u>	<u>(2)</u>
Total comprehensive income (loss) .....	<u><b>\$ 2</b></u>	<u><b>\$ 4</b></u>	<u><b>\$ (54)</b></u>	<u><b>\$ (34)</b></u>

Included in other comprehensive income (loss) for the three months and six months ended April 30, 2002, is a \$1 million and a \$3 million charge, respectively, for derivatives that had been designated as cash flow type hedges in accordance with SFAS 133, as further described in Note E.

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note H. Segment Data**

Reportable operating segment data is as follows:

Millions of dollars	Truck	Engine	Financial Services	Total
<b>For the quarter ended April 30, 2002</b>				
External revenues .....	\$ 1,152	\$ 450	\$ 74	\$ 1,676
Intersegment revenues .....	-	120	9	129
Total revenues.....	<u>\$ 1,152</u>	<u>\$ 570</u>	<u>\$ 83</u>	<u>\$ 1,805</u>
Segment profit (loss).....	\$ (46)	\$ 61	\$ 23	\$ 38
<b>For the six months ended April 30, 2002</b>				
External revenues .....	\$ 2,099	\$ 892	\$ 154	\$ 3,145
Intersegment revenues .....	-	216	18	234
Total revenues.....	<u>\$ 2,099</u>	<u>\$ 1,108</u>	<u>\$ 172</u>	<u>\$ 3,379</u>
Segment profit (loss).....	\$ (159)	\$ 103	\$ 54	\$ (2)
<b>As of April 30, 2002</b>				
Segment assets .....	\$ 1,858	\$ 1,080	\$ 2,397	\$ 5,335
<b>For the quarter ended April 30, 2001</b>				
External revenues .....	\$ 1,239	\$ 470	\$ 90	\$ 1,799
Intersegment revenues .....	-	150	15	165
Total revenues.....	<u>\$ 1,239</u>	<u>\$ 620</u>	<u>\$ 105</u>	<u>\$ 1,964</u>
Segment profit (loss).....	\$ (48)	\$ 67	\$ 25	\$ 44
<b>For the six months ended April 30, 2001</b>				
External revenues .....	\$ 2,261	\$ 881	\$ 168	\$ 3,310
Intersegment revenues .....	-	269	32	301
Total revenues.....	<u>\$ 2,261</u>	<u>\$ 1,150</u>	<u>\$ 200</u>	<u>\$ 3,611</u>
Segment profit (loss).....	\$ (139)	\$ 109	\$ 49	\$ 19
<b>As of April 30, 2001</b>				
Segment assets .....	\$ 1,941	\$ 1,239	\$ 2,402	\$ 5,582

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note H. Segment Data (continued)**

Reconciliation to the consolidated financial statements as of and for the three months and six months ended April 30 is as follows:

	<b>Three Months Ended April 30</b>		<b>Six Months Ended April 30</b>	
Millions of dollars	<b>2002</b>	2001	<b>2002</b>	2001
<b>Segment sales and revenues</b> .....	<b>\$1,805</b>	\$ 1,964	<b>\$3,379</b>	\$ 3,611
Other income .....	<b>2</b>	5	<b>5</b>	10
Intercompany .....	<b>(129)</b>	(165)	<b>(234)</b>	(301)
<b>Consolidated sales and revenues</b> .....	<b><u>\$1,678</u></b>	<u>\$ 1,804</u>	<b><u>\$3,150</u></b>	<u>\$ 3,320</u>
<b>Segment profit (loss)</b> .....	<b>\$ 38</b>	\$ 44	<b>\$ (2)</b>	\$ 19
Restructuring adjustment .....	<b>-</b>	-	<b>1</b>	-
Corporate items .....	<b>(32)</b>	(36)	<b>(70)</b>	(71)
Manufacturing net interest income (expense) .....	<b>(13)</b>	(3)	<b>(26)</b>	1
<b>Consolidated pretax income (loss)</b> .....	<b><u>\$ (7)</u></b>	<u>\$ 5</u>	<b><u>\$ (97)</u></b>	<u>\$ (51)</u>
<b>Segment assets</b> .....	<b>\$5,335</b>	\$ 5,582		
Cash and marketable securities .....	<b>400</b>	272		
Deferred taxes .....	<b>1,020</b>	892		
Corporate intangible pension assets .....	<b>74</b>	36		
Other corporate and eliminations .....	<b>(94)</b>	(67)		
<b>Consolidated assets</b> .....	<b><u>\$6,735</u></b>	<u>\$ 6,715</u>		

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note I. Restructuring Charge**

In October 2000, the company incurred charges for restructuring, asset write-downs, loss on anticipated sale of business and other exit costs totaling \$306 million as part of an overall plan to restructure its manufacturing and corporate operations ("Plan of Restructuring"). The following are the major restructuring, integration and cost reduction initiatives included in the Plan of Restructuring:

- Replacement of current steel cab trucks with a new line of high performance next generation vehicles (NGV) and a concurrent realignment of the company's truck manufacturing facilities
- Closure of certain operations and exit of certain activities
- Launch of the next generation technology diesel engines
- Consolidation of corporate operations
- Realignment of the bus and truck dealership network and termination of various dealership contracts

Of the total pretax restructuring charge of \$306 million, \$150 million represented non-cash charges. Through April 30, 2002, approximately \$215 million of the charge has been incurred, and \$12 million of curtailment loss related to the company's postretirement benefit plans has been reclassified as a non-current postretirement liability. The remaining restructuring liability of \$79 million is expected to be funded from existing cash balances and internally generated cash flows from operations.

The specific actions included in the Plan of Restructuring were substantially complete by November 2001. Components of the remaining restructuring charge are as follows:

(Millions of dollars)	<b>Balance October 31, 2001</b>	<b>Amount Incurred</b>	<b>Balance April 30, 2002</b>
Severance and other benefits	\$ 32	\$ (7)	\$ 25
Lease terminations	35	(1)	34
Loss on sale of business	2	(2)	-
Dealer termination and exit costs	21	(1)	20
Total	<u>\$ 90</u>	<u>\$ (11)</u>	<u>\$ 79</u>

The Plan of Restructuring included the reduction of approximately 2,100 employees from the workforce, primarily in North America, which was revised to 1,900 employees at October 31, 2001. During the quarter, approximately \$4 million was paid for severance and other benefits. As of April 30, 2002, approximately \$38 million of the total net charge of \$75 million has been paid for severance and other benefits for the reduction of approximately 1,900 employees, and \$12 million of curtailment loss has been reclassified as a non-current postretirement liability. The severance and other benefits balance represents costs related to future payments over the next two years for headcount reductions already incurred.

Lease termination costs include future obligations under long-term non-cancelable lease agreements at facilities being vacated following workforce reductions. This charge primarily consists of the estimated lease costs, net of probable sublease income, associated with the cancellation of the company's corporate office lease at NBC Tower in Chicago, Illinois, which expires in 2010. As of April 30, 2002, \$4 million of the total net charge of \$38 million has been incurred for lease termination costs, of which \$1 million was incurred during the quarter.

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note I. Restructuring Charge (continued)**

The Plan of Restructuring included the effect of the sale of Harco National Insurance Company (Harco). On November 30, 2001, NFC completed the sale of Harco to IAT Reinsurance Syndicate Ltd., a Bermuda reinsurance company. The remaining payments related to exit costs of approximately \$2 million were incurred during the quarter.

Dealer termination and exit costs include the termination of certain dealer contracts in connection with the realignment of the company's bus distribution network, and other litigation costs to implement the restructuring initiatives. As of April 30, 2002, approximately \$18 million of the total net charge of \$38 million has been paid for dealer terminations and exit costs, of which an insignificant amount was incurred during the quarter.

**Note J. Sale of Receivables**

NFC's primary business is to provide wholesale, retail and lease financing for new and used trucks sold by International and International's dealers, and as a result, NFC's finance receivables and leases have significant concentration in the trucking industry. NFC retains as collateral a security interest in the equipment associated with wholesale notes, retail notes and leases.

NFC securitizes and sells finance receivables through Navistar Financial Retail Receivables Corporation (NFRRC), Navistar Financial Securities Corporation (NFSC), Truck Retail Accounts Corporation (TRAC) and Truck Engine Receivables Financing Corporation (TERFCO), all special purpose entities and wholly owned subsidiaries of NFC. The sales of finance receivables in each of the securitizations constitute sales under accounting principles generally accepted in the United States of America, with the result that the sold finance receivables are removed from NFC's balance sheet and the investor's interests in the related trust or conduit are not reflected as liabilities. However, the special purpose entity's residual interest in the related trusts or assets held by the conduit are reflected in the Statement of Financial Condition as assets. NFRRC, NFSC, TRAC and TERFCO have limited recourse on the sold finance receivables. The terms of receivable sales generally require NFC to maintain cash reserves with the trusts and conduits as credit enhancement. These cash reserves are restricted under the terms of the securitized sales agreements. The maximum exposure under all receivable sale recourse provisions at April 30, 2002, was \$401 million. Management believes the recorded reserves for losses are adequate.

At April 30, 2002, NFC has a \$500 million revolving retail warehouse facility due in October 2005. In October 2000, Truck Retail Instalment Paper Corporation, a special purpose entity and wholly owned subsidiary of NFC, issued \$475 million of senior class AAA rated and \$25 million of subordinated class A rated floating rate asset-backed notes. The proceeds were used to purchase eligible finance receivables from NFC and establish a revolving retail warehouse facility for NFC's retail notes and retail leases, other than fair market value leases.

NFC continues to service the sold finance receivables, for which a servicing fee is received. Servicing fees are earned on a level yield basis over the terms of the related finance receivables. Servicing fees are typically set at 1.0% of average outstanding net finance receivable balances, representing NFC's estimated costs to service the finance receivables.

Gains or losses on sales of finance receivables are estimated based upon the present value of future expected cash flows using assumptions for prepayment speeds and current market interest rates. These assumptions use management's best estimates commensurate with the risks involved. An allowance for credit losses is provided prior to the receivables sale and is reclassified as part of retained interest upon sale.

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note J. Sale of Receivables (continued)**

Finance receivable balances do not include finance receivables sold by NFC to public and private investors with limited recourse provisions. Outstanding sold finance receivable balances are as follows, in millions:

	<b>April 30 2002</b>	October 31 2001	April 30 2001
Retail notes, net of unearned finance income .....	<b>\$ 2,078</b>	\$ 1,863	\$ 2,421
Wholesale notes .....	<b>694</b>	797	856
Retail accounts .....	<b>200</b>	191	176
Total.....	<b>\$ 2,972</b>	\$ 2,851	\$ 3,453

Additional financial data for gross serviced finance receivables as of April 30, 2002, and for the six months then ended is as follows, in millions:

	Retail Notes	Leases	Wholesale Notes	Accounts
Gross serviced finance receivables.....	\$ 2,516	\$ 498	\$ 745	\$ 351
Gross serviced finance receivables with				
installments past due .....	23	5	5	11
Credit losses net of recoveries .....	10	1	-	-

During the six months ended April 30, 2002, NFC sold \$888 million of retail notes, net of unearned finance income, through NFRRC in two separate sales. NFC sold the retail notes to owner trusts, which, in turn, issued \$1,000 million of asset-backed securities that were sold to investors. Aggregate net gains of \$24 million were recognized on these sales. These aggregate gains are net of \$3 million of losses on forward rate contracts. NFC uses forward rate contracts to limit its exposure to interest rate fluctuations on newly acquired retail notes prior to their inclusion in a securitization.

At April 30, 2002, NFSC has in place a revolving wholesale note trust that provides for the funding of \$837 million of eligible wholesale notes. TERFCO has in place a revolving trust that provides for the funding of \$100 million of eligible Ford Motor Company accounts receivable. TRAC has in place a revolving retail account conduit that provides for the funding of \$100 million of eligible retail accounts.

When finance receivables are sold, NFC retains an interest in the securitized receivables in the form of interest-only strips, servicing rights, cash reserve accounts and subordinated certificates. The carrying amount of these retained interests approximate fair value and were \$383 million, \$324 million and \$391 million at April 30, 2002, October 31, 2001 and April 30, 2001, respectively. These amounts are included in finance and other receivables in the Statement of Financial Condition.

Key economic assumptions used in measuring the gains and the related retained interest at April 30, 2002, were a prepayment speed of 1.4% to 1.6%, a weighted average remaining life of 31 months and a residual cash flows discount rate of 6.93%.

The following table summarizes certain cash flows received from (paid to) securitization trusts/conduits during the six months ended April 30, 2002, in millions:

Proceeds from initial sales of retail receivables .....	\$ 999
Proceeds from subsequent sales of receivables into revolving facilities.....	2,240
Servicing fees received .....	12
All other cash received from trusts.....	123
Purchase of delinquent or foreclosed receivables .....	(31)
Cash used for pool buybacks .....	(45)

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note K. New Accounting Pronouncements**

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets" and Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 142 was adopted by the company on November 1, 2001, and did not have a material impact on the company's financial position, results of operations or cash flows. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The company is evaluating the impact of SFAS 143 on its financial position, results of operations and cash flows.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The company is evaluating the impact on the company's financial position, results of operations and cash flows.

**Note L. Condensed Consolidating Guarantor and Non-Guarantor Financial Information**

The following tables set forth the condensed consolidating Statements of Financial Condition as of April 30, 2002 and 2001, and the Statements of Income and Cash Flow for the six months ended April 30, 2002 and 2001. The following information is included as a result of the guarantee of the \$400 million Senior Notes by International, exclusive of its subsidiaries. International is a direct wholly owned subsidiary of NIC. International, exclusive of its subsidiaries, also guarantees NIC's obligations under its 7% senior notes due 2003 and 8% senior subordinated notes due 2008. None of NIC's other subsidiaries guarantee any of these notes. Each of the guarantees is full and unconditional. Separate financial statements and other disclosures concerning International have not been presented because management believes that such information is not material to investors. NIC includes the consolidated financial results of the parent company only, with all of its wholly owned subsidiaries accounted for under the equity method. International, for purposes of this disclosure only, includes the consolidated financial results of its wholly owned subsidiaries accounted for under the equity method. "Non-Guarantor Companies and Eliminations" includes the consolidated financial results of all other non-guarantor subsidiaries including the elimination entries for all intercompany transactions. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries.

NIC files a consolidated U.S. federal income tax return which includes International and its U.S. subsidiaries. International has a tax allocation agreement (Tax Agreement) with NIC which requires International to compute its separate federal income tax expense based on its adjusted book income. Any resulting tax liability is paid to NIC. In addition, under the Tax Agreement, International is required to pay to NIC any tax payments received from its subsidiaries. The effect of the Tax Agreement is to allow NIC, rather than International, to utilize U.S. operating income/losses and NIC operating loss carryforwards.

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note L. Condensed Consolidating Guarantor and Non-Guarantor Financial Information (continued)**

	<u>NIC</u>	<u>International</u>	<u>Non-Guarantor Companies and Eliminations</u>	<u>Consolidated</u>
<b><u>CONDENSED CONSOLIDATING STATEMENT OF INCOME FOR THE SIX MONTHS ENDED APRIL 30, 2002</u></b>				
Sales and revenues .....	\$ 3	\$ 2,417	\$ 730	\$ 3,150
Cost of products and services sold .....	-	2,215	429	2,644
Restructuring adjustment .....	-	-	(1)	(1)
All other operating expenses .....	(4)	467	141	604
<b>Total costs and expenses .....</b>	<b>(4)</b>	<b>2,682</b>	<b>569</b>	<b>3,247</b>
Equity in income (loss) of non-consolidated subsidiaries .....	(104)	126	(22)	-
Income (loss) before income taxes .....	(97)	(139)	139	(97)
Income tax expense (benefit) .....	(37)	12	(12)	(37)
<b>Net income (loss) .....</b>	<b>\$ (60)</b>	<b>\$ (151)</b>	<b>\$ 151</b>	<b>\$ (60)</b>
<b><u>CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL CONDITION AS OF APRIL 30, 2002</u></b>				
<b>ASSETS</b>				
Cash and marketable securities .....	\$ 375	\$ 5	\$ 743	\$ 1,123
Receivables, net .....	6	87	1,568	1,661
Inventories .....	-	314	330	644
Property and equipment, net .....	-	893	783	1,676
Investment in affiliates .....	(1,235)	989	246	-
Deferred tax asset and other assets .....	1,011	281	339	1,631
<b>Total assets .....</b>	<b>\$ 157</b>	<b>\$ 2,569</b>	<b>\$ 4,009</b>	<b>\$ 6,735</b>
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>				
Debt .....	\$ 821	\$ 21	\$ 1,886	\$ 2,728
Postretirement benefits liability .....	-	1,004	101	1,105
Amounts due (from) to affiliates .....	(1,893)	1,693	200	-
Other liabilities .....	137	1,284	389	1,810
<b>Total liabilities .....</b>	<b>(935)</b>	<b>4,002</b>	<b>2,576</b>	<b>5,643</b>
Shareowners' equity (deficit) .....	1,092	(1,433)	1,433	1,092
<b>Total liabilities and shareowners' equity .....</b>	<b>\$ 157</b>	<b>\$ 2,569</b>	<b>\$ 4,009</b>	<b>\$ 6,735</b>
<b><u>CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE SIX MONTHS ENDED APRIL 30, 2002</u></b>				
Cash provided by (used in) operations .....	\$ (299)	\$ 58	\$ 115	\$ (126)
<b>Cash flow from investment programs</b>				
Purchases, net of collections, of finance receivables .....	-	-	346	346
Net (increase) decrease in marketable securities .....	26	-	(328)	(302)
Capital expenditures .....	-	(94)	(20)	(114)
Other investing activities .....	(106)	35	105	34
<b>Cash provided by (used in) investment programs .....</b>	<b>(80)</b>	<b>(59)</b>	<b>103</b>	<b>(36)</b>
<b>Cash flow from financing activities</b>				
Net repayments of debt .....	-	-	(128)	(128)
Other financing activities .....	82	-	(56)	26
<b>Cash provided by (used in) financing activities .....</b>	<b>82</b>	<b>-</b>	<b>(184)</b>	<b>(102)</b>
<b>Cash and cash equivalents</b>				
Increase (decrease) during the period .....	(297)	(1)	34	(264)
At beginning of the period .....	658	6	158	822
<b>Cash and cash equivalents at end of the period .....</b>	<b>\$ 361</b>	<b>\$ 5</b>	<b>\$ 192</b>	<b>\$ 558</b>



Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note L. Condensed Consolidating Guarantor and Non-Guarantor Financial Information (continued)**

	<u>NIC</u>	<u>International</u>	<u>Non-Guarantor Companies and Eliminations</u>	<u>Consolidated</u>
<b><u>CONDENSED CONSOLIDATING STATEMENT OF INCOME FOR THE SIX MONTHS ENDED APRIL 30, 2001</u></b>				
Sales and revenues .....	\$ 5	\$ 2,670	\$ 645	\$ 3,320
Cost of products and services sold .....	-	2,465	315	2,780
All other operating expenses .....	(39)	488	142	591
<b>Total costs and expenses .....</b>	<b>(39)</b>	<b>2,953</b>	<b>457</b>	<b>3,371</b>
Equity in income (loss) of non-consolidated subsidiaries .....	(95)	160	(65)	-
Income (loss) before income taxes .....	(51)	(123)	123	(51)
Income tax expense (benefit) .....	(19)	10	(10)	(19)
<b>Net income (loss) .....</b>	<b>(32)</b>	<b>(133)</b>	<b>133</b>	<b>(32)</b>
<b><u>CONDENSED CONSOLIDATING STATEMENT OF FINANCIAL CONDITION AS OF APRIL 30, 2001</u></b>				
<b>ASSETS</b>				
Cash and marketable securities .....	\$ 269	\$ 4	\$ 674	\$ 947
Receivables, net .....	7	151	1,510	1,668
Inventories .....	-	401	317	718
Property and equipment, net .....	-	1,039	804	1,843
Investment in affiliates .....	(872)	927	(55)	-
Deferred tax asset and other assets .....	871	284	384	1,539
<b>Total assets .....</b>	<b>\$ 275</b>	<b>\$ 2,806</b>	<b>\$ 3,634</b>	<b>\$ 6,715</b>
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>				
Debt .....	\$ 421	\$ 4	\$ 2,104	\$ 2,529
Postretirement benefits liability .....	-	724	93	817
Amounts due (from) to affiliates .....	(1,498)	1,436	62	-
Other liabilities .....	73	1,522	495	2,090
<b>Total liabilities .....</b>	<b>(1,004)</b>	<b>3,686</b>	<b>2,754</b>	<b>5,436</b>
Shareowners' equity (deficit) .....	1,279	(880)	880	1,279
<b>Total liabilities and shareowners' equity .....</b>	<b>\$ 275</b>	<b>\$ 2,806</b>	<b>\$ 3,634</b>	<b>\$ 6,715</b>
<b><u>CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE SIX MONTHS ENDED APRIL 30, 2001</u></b>				
Cash provided by (used in) operations .....	\$ 143	\$ (1)	\$ (49)	\$ 93
<b>Cash flow from investment programs</b>				
Purchases, net of collections, of finance receivables .....	-	-	691	691
Net (increase) decrease in marketable securities .....	83	-	(422)	(339)
Capital expenditures .....	-	(89)	(34)	(123)
Other investing activities .....	2	73	(132)	(57)
<b>Cash provided by (used in) investment programs .....</b>	<b>85</b>	<b>(16)</b>	<b>103</b>	<b>172</b>
<b>Cash flow from financing activities</b>				
Net repayments of debt .....	(23)	(2)	(109)	(134)
<b>Cash used in financing activities .....</b>	<b>(23)</b>	<b>(2)</b>	<b>(109)</b>	<b>(134)</b>
<b>Cash and cash equivalents</b>				
Increase (decrease) during the period .....	205	(19)	(55)	131
At beginning of the period .....	64	23	210	297
<b>Cash and cash equivalents at end of the period .....</b>	<b>\$ 269</b>	<b>\$ 4</b>	<b>\$ 155</b>	<b>\$ 428</b>

Navistar International Corporation and Consolidated Subsidiaries  
Notes to Financial Statements (Unaudited)

**Note M. Subsequent Events**

In May 2002, International met with the National Highway Traffic Safety Administration and presented notification of a safety defect on air brake fittings. The company will be conducting a voluntary safety recall to address this defect, and will notify owners beginning in June 2002. The defect involves a brass fitting that connects the double check valve to the brake relay valve. International is currently developing repair kits as part of this recall, which should be available in July or August 2002. International has identified the population that could be affected by this recall, which could be up to 153,800 units in the U.S. and Canada. Initial cost estimates for this recall are between \$6 million and \$10 million.

On June 1, 2002, the company's collective bargaining contract with the National Automobile, Aerospace and Agricultural Implement Workers of Canada (CAW) expired. Efforts to negotiate a new labor contract with the CAW failed, and on June 1, 2002, the CAW struck the company's Chatham, Ontario, heavy truck assembly plant, whose employees are represented by the CAW. At this point the company believes that the strike will have minimal impact on the company's financial results because the company quickly and effectively implemented contingency plans designed to maintain production and shipment levels to meet the needs of its customers, including increasing premium conventional heavy truck production at its Escobedo Assembly Plant in Mexico. The CAW represents approximately 800 of the company's active employees in Canada. If the company fails to continue to effectively implement its contingency plans, the strike could have a material adverse effect on the company's results of operations or financial performance.

## Navistar International Corporation and Consolidated Subsidiaries

**Additional Financial Information**

The following additional financial information is provided based upon the continuing interest of certain shareholders and creditors.

Navistar International Corporation (with financial services operations on an equity basis) in millions of dollars:

<b>Condensed Statement of Income</b>	<b>Three Months Ended April 30</b>		<b>Six Months Ended April 30</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Sales of manufactured products.....	\$ 1,602	\$ 1,709	\$ 2,991	\$ 3,142
Other income .....	<u>2</u>	<u>3</u>	<u>5</u>	<u>9</u>
<b>Total sales and revenues .....</b>	<b><u>1,604</u></b>	<b><u>1,712</u></b>	<b><u>2,996</u></b>	<b><u>3,151</u></b>
Cost of products sold .....	1,372	1,470	2,613	2,745
Postretirement benefits expense .....	58	48	115	93
Engineering and research expense.....	65	65	129	130
Sales, general and administrative expense.....	109	115	226	217
Other expenses.....	<u>30</u>	<u>33</u>	<u>65</u>	<u>65</u>
<b>Total costs and expenses .....</b>	<b><u>1,634</u></b>	<b><u>1,731</u></b>	<b><u>3,148</u></b>	<b><u>3,250</u></b>
Income (loss) before income taxes				
Manufacturing operations .....	(30)	(19)	(152)	(99)
Financial services operations .....	<u>23</u>	<u>24</u>	<u>55</u>	<u>48</u>
Income (loss) before income taxes.....	(7)	5	(97)	(51)
Income tax expense (benefit).....	<u>(3)</u>	<u>2</u>	<u>(37)</u>	<u>(19)</u>
<b>Net income (loss) .....</b>	<b><u><u>\$ (4)</u></u></b>	<b><u><u>\$ 3</u></u></b>	<b><u><u>\$ (60)</u></u></b>	<b><u><u>\$ (32)</u></u></b>

<b>Condensed Statement of Financial Condition</b>	<b>April 30 2002</b>	<b>October 31 2001</b>	<b>April 30 2001</b>
Cash, cash equivalents and marketable securities.....	\$ 450	\$ 806	\$ 359
Inventories.....	594	569	653
Property and equipment, net.....	1,370	1,359	1,520
Equity in non-consolidated subsidiaries .....	438	398	355
Other assets .....	995	895	921
Deferred tax asset, net.....	<u>1,016</u>	<u>979</u>	<u>885</u>
<b>Total assets .....</b>	<b><u><u>\$ 4,863</u></u></b>	<b><u><u>\$ 5,006</u></u></b>	<b><u><u>\$ 4,693</u></u></b>
Accounts payable, principally trade .....	\$ 905	\$ 1,051	\$ 1,032
Postretirement benefits liability .....	1,092	1,069	807
Debt.....	940	966	641
Other liabilities .....	834	793	934
Shareowners' equity .....	<u>1,092</u>	<u>1,127</u>	<u>1,279</u>
<b>Total liabilities and shareowners' equity.....</b>	<b><u><u>\$ 4,863</u></u></b>	<b><u><u>\$ 5,006</u></u></b>	<b><u><u>\$ 4,693</u></u></b>

## Navistar International Corporation and Consolidated Subsidiaries

**Additional Financial Information**

Navistar International Corporation (with financial services operations on an equity basis)  
in millions of dollars:

<b>Condensed Statement of Cash Flow</b>	<b>Six Months Ended April 30</b>	
	<b>2002</b>	<b>2001</b>
<b>Cash flow from operations</b>		
Net loss .....	\$ (60)	\$ (32)
Adjustments to reconcile net loss to cash used in operations:		
Depreciation and amortization .....	77	79
Deferred income taxes.....	(32)	(7)
Postretirements benefits funding less than expense.....	15	32
Equity in earnings of investees, net of dividends received.....	(33)	12
Other, net.....	(53)	6
Change in operating assets and liabilities, net of effects of acquisition .....	(139)	(188)
<b>Cash used in operations</b> .....	<u>(225)</u>	<u>(98)</u>
<b>Cash flow from investment programs</b>		
Purchases of marketable securities .....	(29)	-
Sales or maturities of marketable securities .....	55	83
Capital expenditures.....	(111)	(122)
Payments for acquisition, net of cash acquired .....	-	(60)
Proceeds from sale -leasebacks .....	5	58
Receivable from financial services operations .....	(79)	285
Investment in affiliates .....	4	5
Capitalized interest and other .....	(7)	(28)
<b>Cash provided by (used in) investment programs</b> .....	<u>(162)</u>	<u>221</u>
<b>Cash provided by financing activities</b> .....	<u>57</u>	<u>23</u>
<b>Cash and cash equivalents</b>		
Increase (decrease) during the period.....	(330)	146
At beginning of the period .....	766	213
<b>Cash and cash equivalents at end of the period</b> .....	<u>\$ 436</u>	<u>\$ 359</u>

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

### **RESULTS OF OPERATIONS**

*Certain statements under this caption that are not purely historical constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties. These forward-looking statements are based on current management expectations as of the date made. The company assumes no obligation to update any forward-looking statements. Navistar International Corporation's actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed under the caption "Business Environment."*

#### Second Quarter Ended April 30, 2002

The company reported a net loss of \$4 million, or a \$0.07 loss per diluted common share for the second quarter ended April 30, 2002. For the comparable quarter last year, net income was \$3 million, or \$0.05 per diluted common share.

The truck segment's loss and the engine segment's profit decreased for the second quarter of 2002 compared to the same period in 2001. Both of these segments also experienced decreases in revenues for that same period. These decreases are due to lower shipments driven by the continued weakness in the medium truck and school bus markets.

The financial services segment's profit decreased \$2 million from the second quarter of 2001 to \$23 million. Revenues for the financial services segment decreased \$22 million compared to the same period last year primarily due to changes in finance and insurance revenue discussed below.

**Sales and Revenues.** Sales and revenues for the second quarter of 2002 totaled \$1,678 million, 7% lower than the \$1,804 million reported for the comparable quarter in 2001.

United States (U.S.) and Canadian industry retail sales of Class 5 through 8 trucks totaled 68,100 units in the second quarter of 2002, which is 16% lower than the 81,200 units sold during this period in 2001. Class 8 heavy truck sales of 35,600 units during the second quarter of 2002 were 14% lower than the 2001 level of 41,200 units. Industry sales of Class 5, 6 and 7 medium trucks, including school buses, decreased 19% to 32,500 units. Industry sales of school buses, which accounted for 24% of the medium truck market, decreased 10% to 7,700 units.

Market share for the second quarter of 2002 increased to 27.1% from 26.0% reported in the same period of 2001. This improvement was the result of focused sales and marketing efforts.

Shipments of mid-range diesel engines by the company to other original equipment manufacturers (OEMs) during the second quarter of 2002 totaled 78,900 units, an 8% decrease from the same period of 2001.

Finance and insurance revenue of \$72 million in the second quarter of 2002 decreased 8% from 2001. This is due to lower average serviced retail and wholesale balances resulting from lower truck industry sales partially offset by higher gains on sales of retail note receivables.

Other income decreased to \$4 million from \$17 million reported in the second quarter of 2001. This decrease is primarily the result of lower marketable securities revenue driven by lower average interest rates.

**Costs and expenses.** Manufacturing gross margin was 14.3% of sales for the second quarter of 2002 compared with 13.9% for the same period in 2001. This increase is mainly a result of cost structure improvements and price improvements in new products.

Postretirement benefits expense increased \$11 million from the second quarter of 2001 to \$58 million. This increase is primarily due to higher interest expense resulting from higher pension and health care obligations, higher amortization, and lower returns on assets, all of which were driven by large losses in 2001.

Sales, general and administrative expense decreased 6% to \$129 million in the second quarter of 2002 from \$137 million for the comparable quarter in 2001. This change is due to a decrease in the provision for losses on receivables driven by a reduction in the repossession frequency.

Interest expense decreased \$4 million from the second quarter of 2001 to \$38 million, primarily due to the company's lower weighted average interest rates on debt.

Other expense decreased to \$7 million in the second quarter of 2002 from \$13 million in the same period of 2001. This decrease is primarily due to lower financing charges on sold receivables.

#### Six Months Ended April 30, 2002

The company reported a net loss of \$60 million, or a \$1.00 loss per diluted common share for the first six months of 2002, primarily due to lower sales volumes. The net loss was \$32 million, or a \$0.53 loss per diluted common share, for the comparable period of 2001.

During the first half of 2002, both the truck and engine segments' profits and revenues decreased compared to the same period in 2001. These decreases are driven by the continued softness in the medium truck and school bus markets.

The financial services segment's profit was \$54 million for the first six months of 2002, which is \$5 million higher than the same period of 2001, primarily due to higher gains on sales of retail note receivables. Revenues for the financial services segment decreased \$28 million primarily due to changes in finance and insurance revenue discussed below.

**Sales and Revenues.** Sales and revenues for the first six months of 2002 totaled \$3,150 million, 5% lower than the \$3,320 million reported for the comparable period of 2001.

U.S. and Canadian industry retail sales of Class 5 through 8 trucks totaled 129,000 units for the first six months of 2002, which is 19% lower than the 160,200 units sold during this period in 2001. Class 8 heavy truck sales of 68,900 units during the first half of 2002 were 18% lower than the 2001 level of 83,900 units. Industry sales of Class 5, 6 and 7 medium trucks, including school buses, decreased 21% to 60,100 units. Industry sales of school buses, which accounted for 22% of the medium truck market, decreased 11% to 13,200 units.

Market share for the first six months of 2002 increased to 26.8% from 25.5% reported in the same period of 2001. This improvement was the result of focused sales and marketing efforts.

Shipments of mid-range diesel engines by the company to other OEMs during the first half of 2002 totaled 156,800 units, comparable to the same period of 2001.

Finance and insurance revenue of \$149 million for the first half of 2002 decreased 3% from 2001. This decrease is due to lower average serviced finance receivable balances partially offset by higher gains on sales of retail note receivables.

Other income decreased to \$10 million from \$24 million reported for the first six months of 2001. This decrease is primarily the result of lower marketable securities revenue driven by lower average interest rates.

**Costs and expenses.** Manufacturing gross margin was 12.6% of sales for the first half of 2002, compared to 12.4% for the same period in 2001.

Postretirement benefits expense increased \$23 million from the first half of 2001 to \$116 million. This increase is primarily due to higher interest expense resulting from higher pension and health care obligations, higher amortization, and lower returns on assets, all of which were driven by large losses in 2001.

Interest expense decreased 6% from the first half of 2001 primarily due to the company's lower weighted average interest rates on debt.

Other expense decreased to \$18 million for the first half of 2002 from \$27 million for the same period in 2001. This decrease is primarily due to lower financing charges on sold receivables.

### Restructuring Charge

In October 2000, the company incurred charges for restructuring, asset write-downs, loss on anticipated sale of business and other exit costs totaling \$306 million as part of an overall plan to restructure its manufacturing and corporate operations ("Plan of Restructuring"). The following are the major restructuring, integration and cost reduction initiatives included in the Plan of Restructuring:

- Replacement of current steel cab trucks with a new line of high performance next generation vehicles (NGV) and a concurrent realignment of the company's truck manufacturing facilities
- Closure of certain operations and exit of certain activities
- Launch of the next generation technology diesel engines
- Consolidation of corporate operations
- Realignment of the bus and truck dealership network and termination of various dealership contracts

Of the total pretax restructuring charge of \$306 million, \$150 million represented non-cash charges. Through April 30, 2002, approximately \$215 million of the charge has been incurred, and \$12 million of curtailment loss related to the company's postretirement benefit plans has been reclassified as a non-current postretirement liability. The remaining restructuring liability of \$79 million is expected to be funded from existing cash balances and internally generated cash flows from operations.

The specific actions included in the Plan of Restructuring were substantially complete by November 2001. Components of the remaining restructuring charge are as follows:

(Millions of dollars)	Balance October 31, 2001	Amount Incurred	Balance April 30, 2002
Severance and other benefits	\$ 32	\$ (7)	\$ 25
Lease terminations	35	(1)	34
Loss on sale of business	2	(2)	-
Dealer termination and exit costs	21	(1)	20
Total	<u>\$ 90</u>	<u>\$ (11)</u>	<u>\$ 79</u>

The Plan of Restructuring included the reduction of approximately 2,100 employees from the workforce, primarily in North America, which was revised to 1,900 employees at October 31, 2001. During the quarter, approximately \$4 million was paid for severance and other benefits. As of April 30, 2002, approximately \$38 million of the total net charge of \$75 million has been paid for severance and other benefits for the reduction of approximately 1,900 employees, and \$12 million of curtailment loss has been reclassified as a non-current postretirement liability. The severance and other benefits balance represents costs related to future payments over the next two years for headcount reductions already incurred.

Lease termination costs include future obligations under long-term non-cancelable lease agreements at facilities being vacated following workforce reductions. This charge primarily consists of the estimated lease costs, net of probable sublease income, associated with the cancellation of the company's corporate office lease at NBC Tower in Chicago, Illinois, which expires in 2010. As of April 30, 2002, \$4 million of the total net charge of \$38 million has been incurred for lease termination costs, of which \$1 million was incurred during the quarter.

The Plan of Restructuring included the effect of the sale of Harco National Insurance Company (Harco). On November 30, 2001, Navistar Financial Corporation (NFC) completed the sale of Harco to IAT Reinsurance Syndicate Ltd., a Bermuda reinsurance company. The remaining payments related to exit costs of approximately \$2 million were incurred during the quarter.

Dealer termination and exit costs include the termination of certain dealer contracts in connection with the realignment of the company's bus distribution network, and other litigation costs to implement the restructuring initiatives. As of April 30, 2002, approximately \$18 million of the total net charge of \$38 million has been paid for dealer terminations and exit costs, of which an insignificant amount was incurred during the quarter.

### **Liquidity and Capital Resources**

Cash flow is generated from the manufacture and sale of trucks, mid-range diesel engines and their associated service parts as well as from product financing provided to the company's dealers and retail customers by the financial services segment. The company's current debt ratings have made sales of finance receivables the most economic source of funding for NFC.

The company had working capital of \$109 million at April 30, 2002, compared to \$463 million at October 31, 2001. Cash used in operations during the first six months of 2002 totaled \$126 million primarily from a net loss of \$60 million and a net change in operating assets and liabilities of \$88 million.

The net use of cash resulting from the change in operating assets and liabilities included a \$168 million decrease in accounts payable primarily due to lower truck and engine production levels in the first half of 2002 as well as from the timing of invoices paid for capital equipment purchased in the fourth quarter of 2001. This change was partially offset by a \$95 million decrease in receivables primarily due to a net decrease in wholesale note and account balances and lower volumes in truck production.

Cash used in investment programs resulted from a net increase in marketable securities of \$302 million, a net increase in property and equipment leased to others of \$30 million, and \$114 million of capital expenditures primarily for the NGV and Next Generation Diesel (NGD) programs. These were partially offset by a net decrease in retail notes and lease receivables of \$346 million and the sale of Harco on November 30, 2001, that provided \$63 million in cash proceeds.

Cash used by financing activities resulted from a net decrease of \$291 million in notes and debt outstanding under the bank revolving credit facility and other commercial paper programs. This was partially offset by a net increase in long-term debt of \$163 million that includes \$220 million of 4.75% subordinated exchangeable notes due 2009, which were issued in March 2002.



NFC has traditionally obtained the funds to provide financing to International's dealers and retail customers from sales of finance receivables, commercial paper, short and long-term bank borrowings, medium and long-term debt and equity capital. As of April 30, 2002, NFC's funding consisted of sold finance receivables of \$2,972 million, bank and other borrowings of \$889 million, subordinated debt of \$270 million, capital lease obligations of \$323 million and equity of \$360 million.

NFC securitizes and sells finance receivables through Navistar Financial Retail Receivables Corporation (NFRRC), Navistar Financial Securities Corporation (NFSC), Truck Retail Accounts Corporation (TRAC) and Truck Engine Receivables Financing Corporation (TERFCO), all special purpose entities and wholly owned subsidiaries of NFC. The sales of finance receivables in each of the securitizations constitute sales under accounting principles generally accepted in the United States of America, with the result that the sold finance receivables are removed from NFC's balance sheet and the investor's interests in the related trust or conduit are not reflected as liabilities. However, the special purpose entity's residual interest in the related trusts or assets held by the conduit are reflected on the Statement of Financial Condition as assets.

Through the asset-backed public market and private placement sales, NFC has been able to fund fixed rate retail note receivables at rates offered to companies with higher investment grade ratings. During the first half of 2002, NFC sold \$888 million of retail notes, net of unearned finance income, through NFRRC in two separate sales. NFC sold the retail notes to owner trusts, which in turn, issued \$1,000 million of asset-backed securities that were sold to investors. Aggregate net gains of \$24 million were recognized on these sales. As of April 30, 2002, the remaining shelf registration available to NFRRC for the public issuance of asset-backed securities was \$2,500 million. Also, as of April 30, 2002, NFSC has in place a revolving wholesale note trust that provides for the funding of \$837 million of eligible wholesale notes, of which \$694 million has been utilized.

At April 30, 2002, available funding under NFC's bank revolving credit facilities, the revolving retail warehouse facility and the revolving wholesale note trust was \$1,165 million. When combined with unrestricted cash and cash equivalents, \$1,251 million was available to fund the general business purposes of NFC.

In November 2000, NFC established TERFCO for the purpose of securitizing engine accounts receivable. In November 2000, NFC securitized all of its unsecured trade receivables generated by the sale of diesel engines and engine service parts from the company to Ford Motor Company. The transaction provides for funding of \$100 million and matures in 2006. As of April 30, 2002, NFC has utilized \$100 million of this facility.

TRAC has in place a revolving retail account conduit that provides for the funding of \$100 million of eligible retail accounts. As of April 30, 2002, NFC has utilized \$100 million of this facility. The facility expires in August 2002 with an option for renewal.

In March 2002, NFC completed the private placement of \$220 million 4.75% subordinated exchangeable notes due 2009. The notes will be exchangeable at the option of the holders, prior to redemption or maturity, into common stock of the company. NFC received \$175 million (before \$6 million of expenses) and the company received \$50 million. The proceeds from the notes will be used for general corporate purposes.

In March 2002, Standard and Poor's lowered the company's and NFC's senior debt ratings to BB+ from BBB-. They also lowered the company's subordinated debt rating to BB- from BB+ and the company's senior unsecured debt rating to BB+ from BBB-. Fitch IBCA lowered the company's and NFC's senior debt ratings to BB+ from BBB- as well as the company's and NFC's subordinated debt ratings to BB- from BB. Fitch IBCA also lowered the company's senior unsecured debt rating to BB+ from BBB-.

There have been no material changes in the company's hedging strategies or derivative positions since October 31, 2001. Further disclosure may be found in Note E to the financial statements and in the company's 2001 Annual Report on Form 10-K.

Cash flow from the company's manufacturing operations, financial services operations and financing capacity is currently sufficient to cover planned investment in the business. The company had outstanding capital commitments of \$144 million at April 30, 2002, primarily for the NGV and NGD programs.

It is the opinion of management that, in the absence of significant unanticipated cash demands, current and forecasted cash flow as well as anticipated financing actions will provide sufficient funds to meet operating requirements and capital expenditures. Management believes that collections on the outstanding receivables portfolios as well as funds available from various funding sources will permit the financial services operations to meet the financing requirements of International's dealers and retail customers.

### **New Accounting Pronouncements**

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets" and Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 142 was adopted by the company on November 1, 2001, and did not have a material impact on the company's financial position, results of operations or cash flows. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The company is evaluating the impact of SFAS 143 on its financial position, results of operations and cash flows.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The company is evaluating the impact on the company's financial position, results of operations and cash flows.

### **Business Environment**

Sales of Class 5 through 8 trucks historically have been cyclical, with demand affected by such economic factors as industrial production, construction, demand for consumer durable goods, interest rates and the earnings and cash flow of dealers and customers. Truck sales in the second quarter continue to be hindered by a number of factors including the overall decline in the economy and associated freight tonnage, rising insurance costs, tightened credit availability and a large decline in sales to leasing companies. The demand for medium trucks and school buses reflected these adverse conditions, however, an improvement in the number of heavy truck orders has increased the company's U.S. and Canadian order backlog at April 30, 2002 to 23,100 units, from the 19,100 units at April 30, 2001. Historically, retail deliveries have been impacted by the rate at which new truck orders are received. Therefore, in order to manage through the current downturn, the company continually evaluates order receipts and backlog throughout the year by balancing production with demand as appropriate. In order to replenish low dealer inventories, output at the company's Springfield, Ohio, assembly plant will be increased to 193 units per day from the present 159 units per day beginning in June 2002.

Reflecting the continued industry-wide decline in new truck orders, the company adjusted its industry projections for 2002. The company currently projects 2002 U.S. and Canadian Class 5, 6, and 7 medium truck demand, excluding school buses, to be 101,500 units, down from the previous forecast of 112,500 units. Demand for school buses has been lowered by 2,000 units to 26,000 units. Class 8 heavy truck volume has been raised to 156,000 units from the previous 144,000 units.

The company, through its subsidiary American Transportation Corporation, announced the creation of a single brand identity for its line of integrated products, the rear engine, front engine and conventional school buses, which are built at American Transportation Corporation's Conway, Arkansas and Tulsa, Oklahoma plants. The new identity, IC Corporation, was unveiled to dealers of the integrated school bus product at the annual bus dealer meeting in April 2002.

On June 1, 2002, the company's collective bargaining contract with the National Automobile, Aerospace and Agricultural Implement Workers of Canada (CAW) expired. Efforts to negotiate a new labor contract with the CAW failed, and on June 1, 2002, the CAW struck at the company's Chatham, Ontario, heavy truck assembly plant, whose employees are represented by the CAW. At this point the company believes that the strike will have minimal impact on the company's financial results because the company quickly and effectively implemented contingency plans designed to maintain production and shipment levels to meet the needs of its customers, including increasing premium conventional heavy truck production at its Escobedo Assembly Plant in Mexico. The CAW represents approximately 800 of the company's active employees in Canada. If the company fails to continue to effectively implement its contingency plans, the strike could have a material adverse effect on the company's results of operations or financial performance.

Navistar International Corporation and Consolidated Subsidiaries

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the company's market risk exposure since October 31, 2001, as reported in the 2001 Annual Report on Form 10-K.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The company and its subsidiaries are subject to various claims arising in the ordinary course of business, and are parties to various legal proceedings that constitute ordinary routine litigation incidental to the business of the company and its subsidiaries. In the opinion of the company's management, none of these proceedings or claims are material to the business or the financial condition of the company.

Various claims and controversies have arisen between the company and its current fuel system supplier, Caterpillar Inc. (Caterpillar), regarding the ownership and validity of certain patents covering fuel system technology to be used in the company's next generation version of diesel engines. In June 1999, in Federal Court in Peoria, IL, Caterpillar sued Sturman Industries, Inc. (Sturman), the company's joint venture partner in developing fuel system technology, alleging that technology invented and patented by Sturman and licensed to the company, belongs to Caterpillar. The company believes that Sturman has meritorious defenses to such claims and intends to continue to cooperate with Sturman to defend this action vigorously. The company believes that Caterpillar may assert claims against the company regarding other aspects of fuel system technology to be used in the company's new engines. In January 2002, Caterpillar sued the company in the Circuit Court in Peoria County, IL, and the company sued Caterpillar in the Circuit Court in Cook County, IL, each alleging the other breached the purchase agreement pursuant to which Caterpillar agreed to be the company's engine fuel system supplier. The company subsequently dismissed its Cook County, IL, suit against Caterpillar and consolidated its claims against Caterpillar in the Peoria County, IL, action. The alleged breaches involve Caterpillar's refusal to supply a new, improved fuel system and the company's subsequent replacement of Caterpillar as the supplier of such systems for the company's next generation version of diesel engines. The company believes that it has meritorious defenses to any such claims Caterpillar has asserted or may assert against the company and will defend vigorously any such actions. Based upon the information developed to date, the company believes that the proceedings or claims will not have a material adverse impact on the business, results of operations or financial condition of the company.

Item 2. Changes in Securities and Use of Proceeds

Directors of the company who are not employees receive an annual retainer of \$50,000, payable at their election in shares of common stock of the company or in cash. Currently the board of directors mandates that at least one-fourth of the annual retainer be paid in the form of common stock of the company. In April 2002, a total of 1,680 shares were issued and receipt of an additional 569 shares was deferred as payment for the 2002 annual retainer. In each case, the shares were acquired at \$43.935, the fair market value of such shares on the date of acquisition. Exemption from registration of the shares is claimed by the company under Section 4(2) of the Securities Act of 1933, as amended.

## Navistar International Corporation and Consolidated Subsidiaries

PART II - OTHER INFORMATION

## Item 2. Changes in Securities and Use of Proceeds (continued)

In March 2002, the company, through its wholly owned finance subsidiary, Navistar Financial Corporation (NFC), completed an offering of \$220 million in aggregate principal amount of NFC's 4.75% Subordinated Exchangeable Notes due 2009. The notes are general unsecured obligations of NFC and are exchangeable, at the option of the holder, into shares of the common stock of the company at a conversion price of \$55.73. The notes may be redeemed for cash at the option of NFC after April 1, 2005, at varying redemption prices depending upon the date of redemption. Interest is payable on the notes semiannually in arrears on April 1 and October 1 of each year. The initial purchasers of the notes were Banc of America Securities, LLC and Salomon Smith Barney. From the aggregate offering price of \$220 million (less a discount of \$5,500,000), NFC received approximately \$164,032,000 and the company received approximately \$50,468,000 representing the equity optionality component of the offering. The company plans to use the proceeds from the offering for general corporate purposes. The offer and sale of the notes was exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Rule 144A promulgated thereunder. On May 7, 2002, the company filed a registration statement for the resale of the notes and the shares of common stock issuable upon conversion of the notes.

Payments of cash dividends and the repurchase of common stock are currently limited due to restrictions contained in the company's \$400 million Senior Notes, \$250 million Senior Subordinated Notes and \$19 million Note Purchase Agreement. The company has not paid dividends on the common stock since 1980 and does not expect to pay cash dividends on the common stock in the foreseeable future.

## Item 4. Submission of Matters to a Vote of Security Holders

At the company's Annual Meeting of Shareowners on February 19, 2002, the following nominees were elected to the board of directors to serve three-year terms expiring at the 2005 Annual Meeting of Shareowners and until their successors are duly elected and qualified. There were no broker non-votes or abstentions with respect to this matter. The results of the voting for the election of directors were as follows:

<u>Nominee</u>	<u>Votes For</u>	<u>Votes Withheld</u>
John D. Correnti	49,100,478	807,643
Allen J. Krowe	49,095,330	812,791
William F. Patient	49,094,003	814,118

Accordingly, the three nominees received a plurality of the votes cast in the election of directors at the meeting and were elected. The names of the remaining directors who did not stand for election at the Annual Meeting and whose terms of office as directors continued after such meeting are Y. Marc Belton, Jerry E. Dempsey, Dr. Abbie J. Griffin, Michael N. Hammes, John R. Horne, Robert C. Lannert, David McAllister and Southwood J. Morcott.

## Item 5. Other Information

On April 16, 2002, the board of directors approved the appointment of Robert C. Lannert to Vice Chairman of the board of directors, and Daniel C. Ustian to President and Chief Operating Officer and director. Together with John R. Horne, who continues as Chairman and Chief Executive Officer, Lannert and Ustian became members of a newly formed Office of the Chairman.

Navistar International Corporation and Consolidated Subsidiaries

PART II – OTHER INFORMATION

Item 6. Exhibits and reports on Form 8-K

10-Q Page

(a) Exhibits:

- |   |     |
|---|-----|
| 3. Articles of Incorporation and By-Laws  | E-1 |
| 4. Instruments Defining The Rights of Security<br>Holders, Including Indentures | E-2 |
| 10. Material Contracts  | E-6 |

(b) Reports on Form 8-K:

A current report on Form 8-K was filed with the Commission on March 15, 2002, in which the company announced that its wholly owned subsidiary, Navistar Financial Corporation, intends to issue \$200 million in subordinated exchangeable notes due 2009.

SIGNATURE

-----

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NAVISTAR INTERNATIONAL CORPORATION

-----

(Registrant)

/s/ Mark T. Schwetschenau

-----

Mark T. Schwetschenau  
Vice President and Controller  
(Principal Accounting Officer)

June 11, 2002

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

-----  
**ARTICLES OF INCORPORATION AND BY-LAWS**

The following documents of Navistar International Corporation are incorporated herein by reference:

- 3.1 Restated Certificate of Incorporation of Navistar International Corporation effective July 1, 1993, filed as Exhibit 3.2 to Annual Report on Form 10-K dated October 31, 1993, which was filed on January 27, 1994, Commission File No. 1-9618, and amended as of May 4, 1998.
- 3.2 The By-Laws of Navistar International Corporation effective April 14, 1995, filed as Exhibit 3.2 on Annual Report on Form 10-K dated October 31, 1995, which was filed on January 26, 1996, on Commission File No. 1-9618.



**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

-----  
**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,  
INCLUDING INDENTURES**

The following instruments of Navistar International Corporation and its principal subsidiary International Truck and Engine Corporation, and its principal subsidiary Navistar Financial Corporation defining the rights of security holders are incorporated herein by reference.

- 4.1 Indenture, dated as of May 30, 1997, by and between Navistar Financial Corporation and The Fuji Bank and Trust Company, as Trustee, for 9% Senior Subordinated Notes due 2002 for \$100,000,000. Filed on Registration No. 333-30167.
- 4.2 Indenture, dated as of February 4, 1998, by and between Navistar International Corporation and Harris Trust and Savings Bank, as Trustee, for 7% Senior Notes due 2003 for \$100,000,000. Filed on Registration No. 333-47063.
- 4.3 Indenture, dated as of February 4, 1998, by and between Navistar International Corporation and Harris Trust and Savings Bank, as Trustee, for 8% Senior Subordinated Notes due 2008 for \$250,000,000. Filed on Registration No. 333-47063.
- 4.4 \$200,000,000 Mexican Peso Revolving Credit Agreement dated as of October 20, 1998 as amended by Amendment No. 4 dated as of October 31, 2001, and renewed on November 27, 2001, among Arrendadora Financiera Navistar S.A. de C.V., Servicios Financieros Navistar S.A. de C.V. and Navistar Comercial S.A. de C.V. and Comerica Bank Mexico, S.A. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.5 \$100,000,000 Revolving Credit Agreement dated as of July 9, 1999 as amended by Amendment No. 7 dated as of April 25, 2001, among Arrendadora Financiera Navistar S.A. de C.V., Servicios Financieros Navistar S.A. de C.V. and Navistar Comercial S.A. de C.V. and Banco Nacional de Mexico, S.A. de C.V. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.6 \$300,000,000 Mexican Peso Revolving Credit Agreement dated as of August 10, 1999, and renewed on November 21, 2001, among Servicios Financieros Navistar S.A. de C.V., Arrendadora Financiera Navistar S.A. de C.V., Navistar Comercial S.A. de C.V. and Bancomer, S.A. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.7 \$95,000,000 Forward contract dated as of April 20, 2000 by and between Navistar International Corporation and Royal Bank of Canada. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

-----  
**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,  
INCLUDING INDENTURES**

- 4.8 \$50,000,000 Mexican Peso Credit Agreement dated as of November 22, 2000, by and between Servicios Financieros Navistar, S.A. de C.V., Arrendadora Financiera Navistar, S.A. de C.V., Navistar Comercial, S.A. de C.V. and Banco Nacional de Obras y Servicios Publicos, S.N.C. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.9 Credit Agreement for \$820,000,000 Revolving Credit and Competitive Advance Facility dated as of December 8, 2000, between Navistar Financial Corporation, Arrendadora Financiera Navistar, S.A. de C.V., Servicios Financieros Navistar, S.A. de C.V. and Navistar Comercial, S.A. de C.V., as borrowers, lenders party hereto, The Chase Manhattan Bank as Administrative Agent, Bank of America as Syndication Agent and Bank of Nova Scotia as Documentation Agent. Filed as Exhibit 10.05 to Navistar Financial Corporation's Form 10-Q dated March 15, 2001. Commission File No. 1-4146-1.
- 4.10 Guarantee, dated as of December 8, 2000, made by Navistar International Corporation, in favor of The Chase Manhattan Bank, as Administrative Agent, for the lenders parties to the Credit Agreement, dated as of December 8, 2000, among Navistar Financial Corporation and Arrendadora Financiera Navistar, S.A. de C.V., Servicios Financieros Navistar, S.A. de C.V. and Navistar Comercial, S.A. de C.V., the Lenders, Bank of America, N.A., as syndication agent, The Bank of Nova Scotia, as documentation agent, and the Administrative Agent. Filed as Exhibit 10.07 to Navistar Financial Corporation's Form 10-Q dated March 15, 2001. Commission File No. 1-4146-1.
- 4.11 Indenture, dated as of May 31, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 9 3/8% Senior Notes due 2006 for \$400,000,000. Filed on Registration No. 333-64626.
- 4.12 First Supplement to Indenture, dated as of May 31, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 7% Senior Notes due 2003 for \$100,000,000. Filed on Registration No. 333-64626.
- 4.13 First Supplement to Indenture, dated as of May 31, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 8% Senior Subordinated Notes due 2008 for \$250,000,000. Filed on Registration No. 333-64626.
- 4.14 Note Purchase Agreement, dated as of June 15, 2001, as amended by Amendment dated August 16, 2001, between International Truck and Engine Corporation and the State of Wisconsin Investment Board for 9.95% Senior Notes due 2011 for \$19,000,000. The Registrant agrees to furnish to the Commission upon request a copy of such agreement, which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

-----  
**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,  
INCLUDING INDENTURES**

- 4.15 \$250,000,000 Mexican Peso Credit Agreement dated as of July 25, 2001 by and between Servicios Financieros Navistar S.A. de C.V., Arrendadora Financiera Navistar, S.A. de C.V., Navistar Comercial, S.A. de C.V. and Banco Nacional de Obras y Servicios Publicos, S.N.C. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.16 First Supplement to Indenture, dated as of August 22, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 9 3/8% Senior Notes due 2006 for \$400,000,000. Filed as Exhibit 4.19 to Annual Report on Form 10-K dated December 18, 2001. Commission File No. 1-9618.
- 4.17 Second Supplement to Indenture, dated as of August 22, 2001, by and between Navistar International Corporation, International Truck and Engine Corporation and BNY Midwest Trust Company, as Trustee, for 8% Senior Subordinated Notes due 2008 for \$250,000,000. Filed as Exhibit 4.20 to Annual Report on Form 10-K dated December 18, 2001. Commission File No. 1-9618.
- 4.18 \$30,000,000 Revolving Credit Agreement dated as of October 25, 2001, among Arrendadora Financiera Navistar S.A de C.V., Servicios Financieros Navistar S.A. de C.V., Navistar Comercial S.A. de C.V. and Export Development Corporation. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.19 \$500,000,000 Mexican Peso Medium Term Promissory Notes Program issued November 22, 2001, by Servicios Financieros Navistar S.A. de C.V. and placed in the market by the intermediate underwriter Casa de Bolsa Citibank, S.A. de C.V. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.20 Navistar International Corporation Restated Stock Certificate filed as Exhibit 4.20 to Form 10-Q dated March 11, 2002. Commission File No. 1-9618.
- 4.21 Indenture, dated as of March 25, 2002, by and among Navistar Financial Corporation, Navistar International Corporation and BNY Midwest Trust Company, as Trustee, for Navistar Financial Corporation's 4.75% Subordinated Exchangeable Notes due 2009 for \$220,000,000. Filed as Exhibit 4.1 to Form S-3 dated May 7, 2002. Registration No. 333-87716.

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

-----  
**INSTRUMENTS DEFINING RIGHTS OF SECURITY HOLDERS,  
INCLUDING INDENTURES**

- 4.22 Registration Rights Agreement, dated as of March 25, 2002, by and among Navistar Financial Corporation, Navistar International Corporation, Salomon Smith Barney, Inc. and Banc of America Securities, LLC. Filed as Exhibit 4.2 to Form S-3 dated May 7, 2002. Registration No. 333-87716.
- 4.23 \$120,000,000 Mexican Peso Revolving Credit Agreement dated as of February 27, 2002, among Arrendadora Financiera Navistar, S.A. de C.V., as borrower, and Nacional Financiera, S.N.C., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).
- 4.24 \$120,000,000 Mexican Peso Revolving Credit Agreement dated as of February 27, 2002, among Servicios Financieros Navistar, S.A. de C.V., as borrower, and Nacional Financiera, S.N.C., as lender. The Registrant agrees to furnish to the Commission upon request a copy of such agreement which it has elected not to file under the provisions of Regulation 601(b)(4)(iii).

=====

Instruments defining the rights of holders of other unregistered long-term debt of Navistar and its subsidiaries have been omitted from this exhibit index because the amount of debt authorized under any such instrument does not exceed 10% of the total assets of the Registrant and its consolidated subsidiaries. The Registrant agrees to furnish a copy of any such instrument to the Commission upon request.

**NAVISTAR INTERNATIONAL CORPORATION  
AND CONSOLIDATED SUBSIDIARIES**

-----  
**MATERIAL CONTRACTS**

The following documents of Navistar International Corporation and its affiliate Navistar Financial Corporation are incorporated herein by reference.

- 10.36 Navistar 1998 Non-Employee Director Stock Option Plan, as amended. Filed as Exhibit 10.1 to Form S-8 dated April 23, 2002. Registration No. 333-86754.
- 10.37 Indenture dated as of April 30, 2002, between Navistar Financial 2001-B Owner Trust and The Bank of New York, as Indenture Trustee, with respect to Navistar Financial 2001-B Owner Trust. Filed on Registration No. 333-62445 and 333-67112.